



Quarterly Economic Briefing

Thursday, May 17, 2007

Center for Econometric Model Research
Indiana Department of Workforce Development
Indiana Business Research Center at Indiana University's Kelley School of Business



Today's Topics

National Economic Outlook

- Bill Witte & Jim Smith

Indiana Economic Outlook

- Bill Witte & Jim Smith

Income Trends in Indiana Counties

- Jerry Conover

Foreign Direct Investment in Indiana

- Tim Slaper

Census 2010: Indiana's Stake in the Game

- Carol Rogers



National & Indiana Outlooks

Bill Witte

Co-Director, Center for Econometric Model Research
Associate Professor of Economics
Indiana University

Jim Smith

Co-Director, Center for Econometric Model Research
Senior Lecturer in Finance
Kelley School of Business - Indianapolis



The National Economy

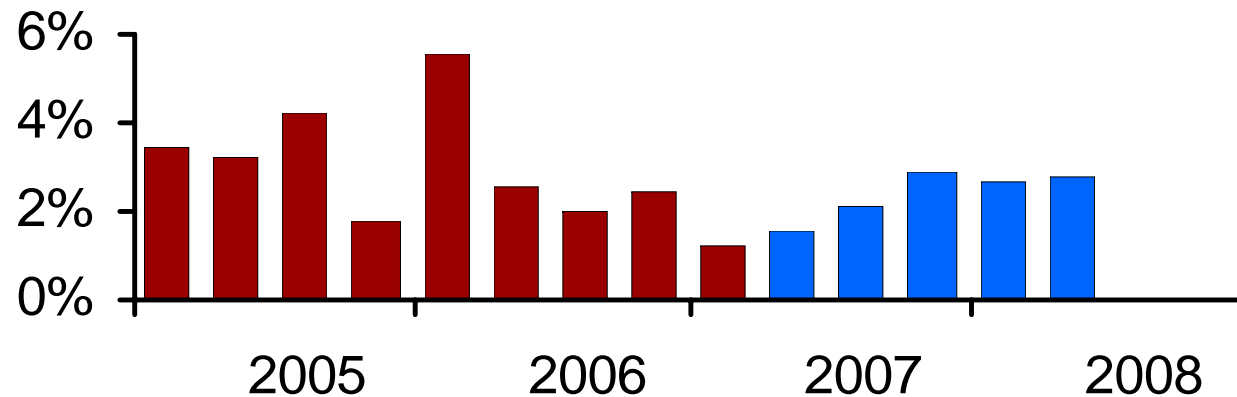
A Fragile Situation

- Housing collapse
- Consumers under pressure
- Business cautious

But Not Disaster

- Support from trade sector
- Less drag from housing
- An adequate labor market

U.S. GDP Growth (Annual Rate)





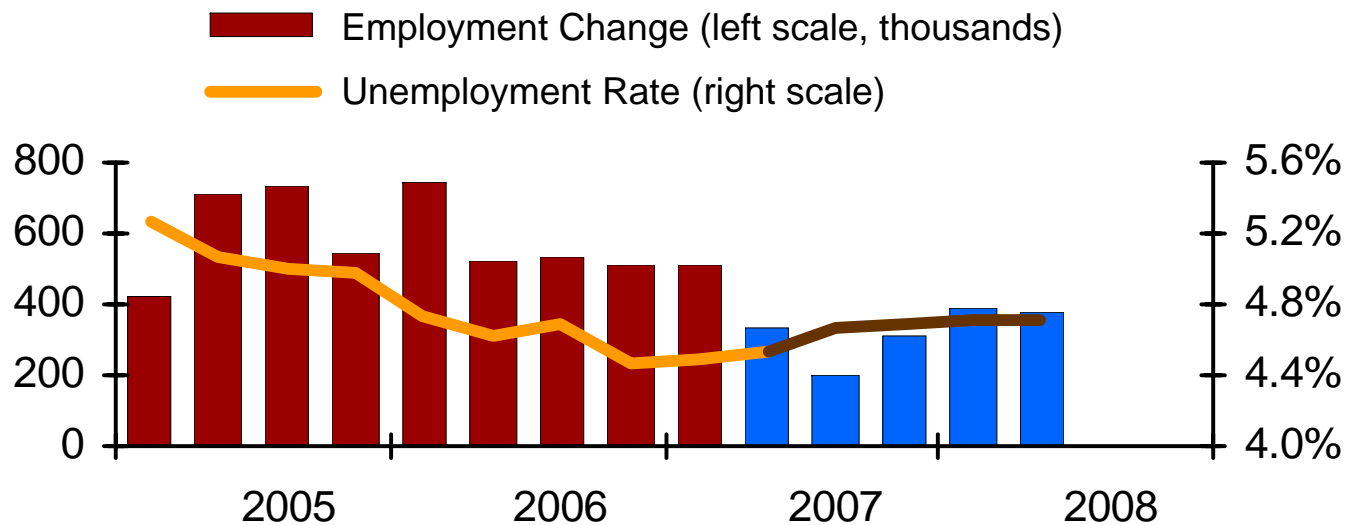
The National Economy

Employment Growth

- About 110 thousand per month
- Well below 2006

Rising Unemployment

- But only a little
- 4.7% by mid-2008





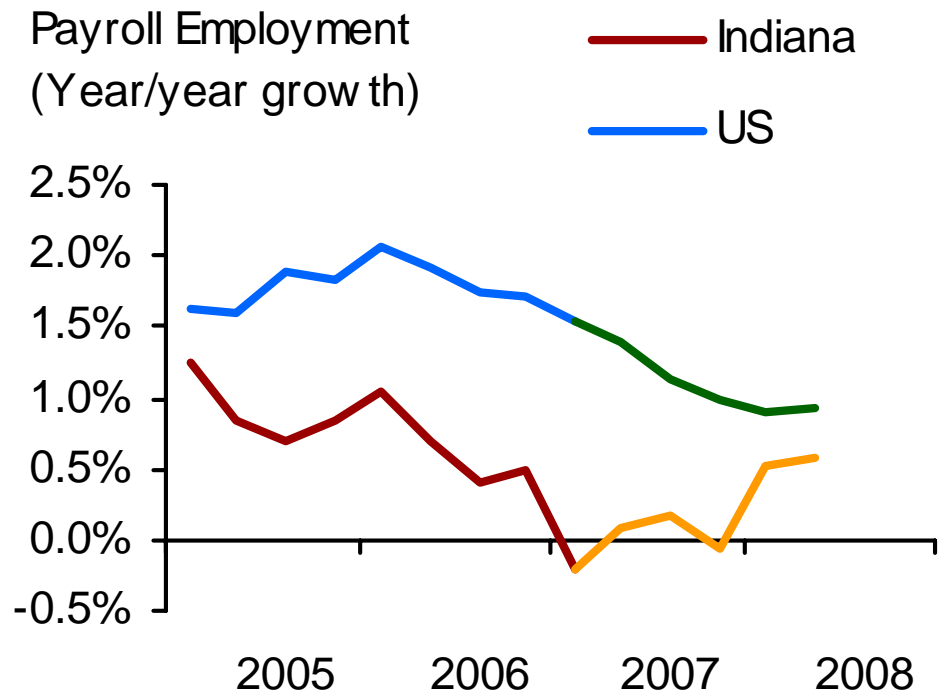
The Indiana Economy

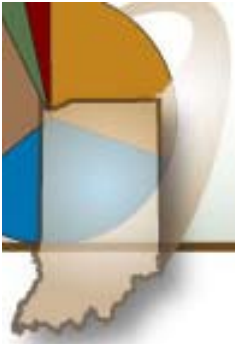
Employment

- Zero growth over past year
- Far short of U.S.
- Household survey looks better
- Similar to rest of Midwest

Forecast

- Improvement
- Both absolute and relative

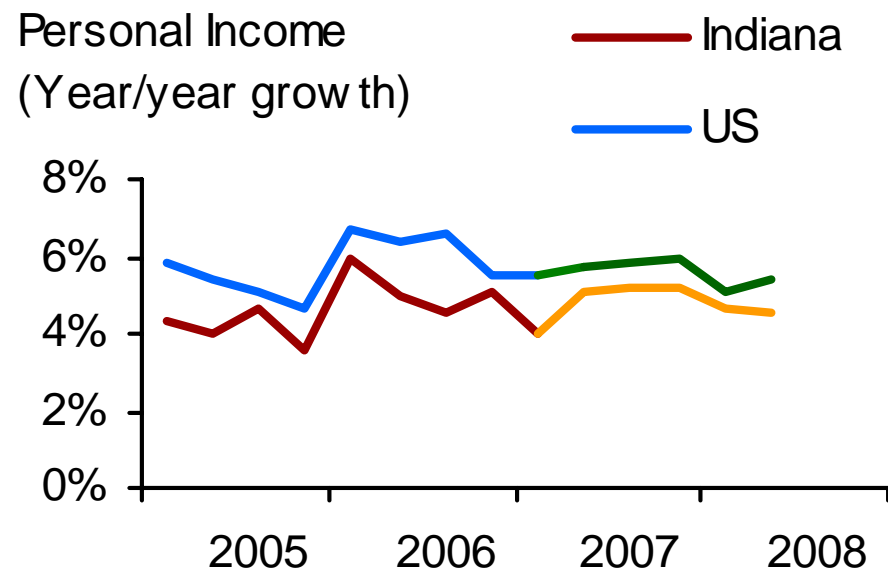




The Indiana Economy

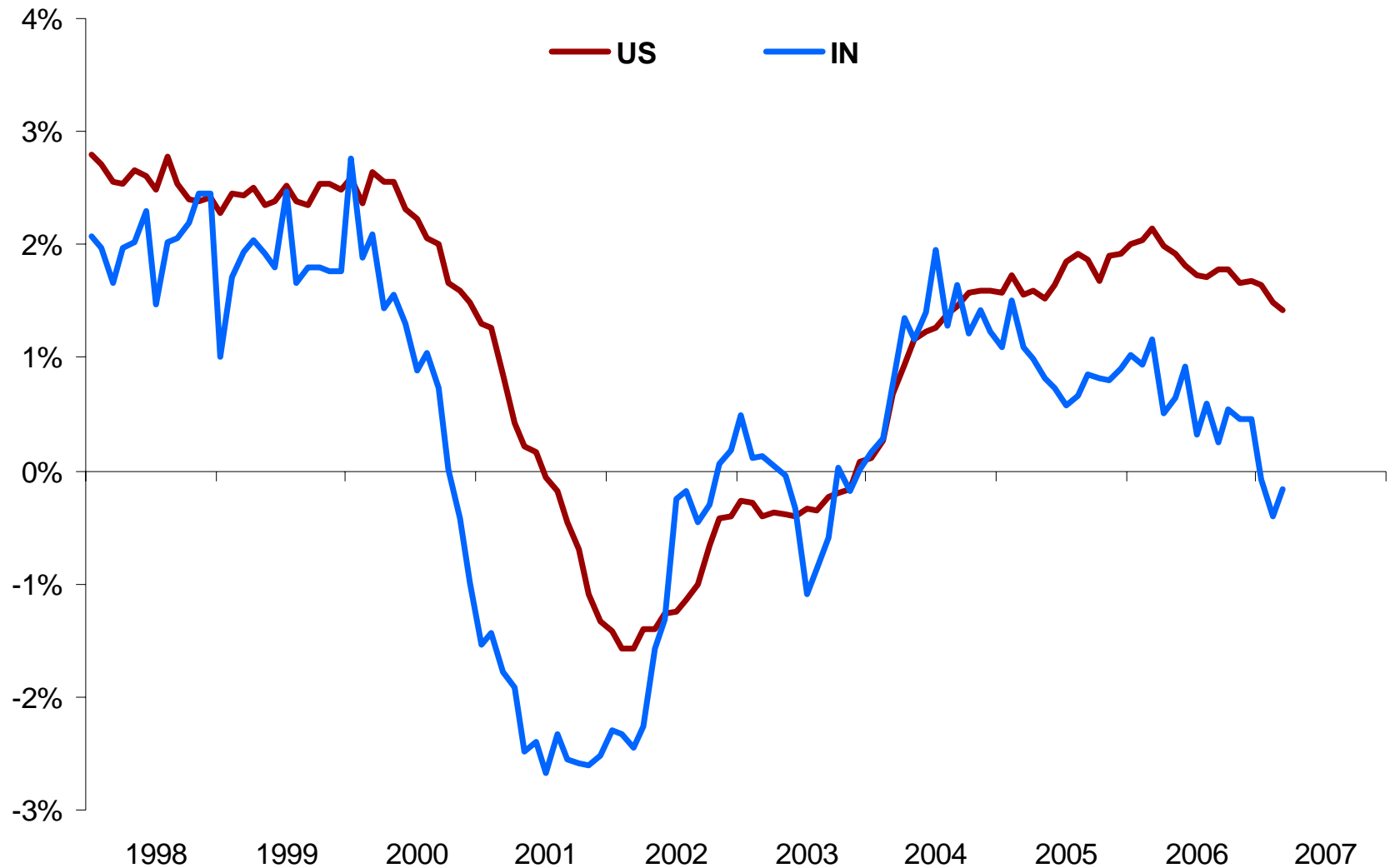
Income

- Parallel to U.S.
- But below



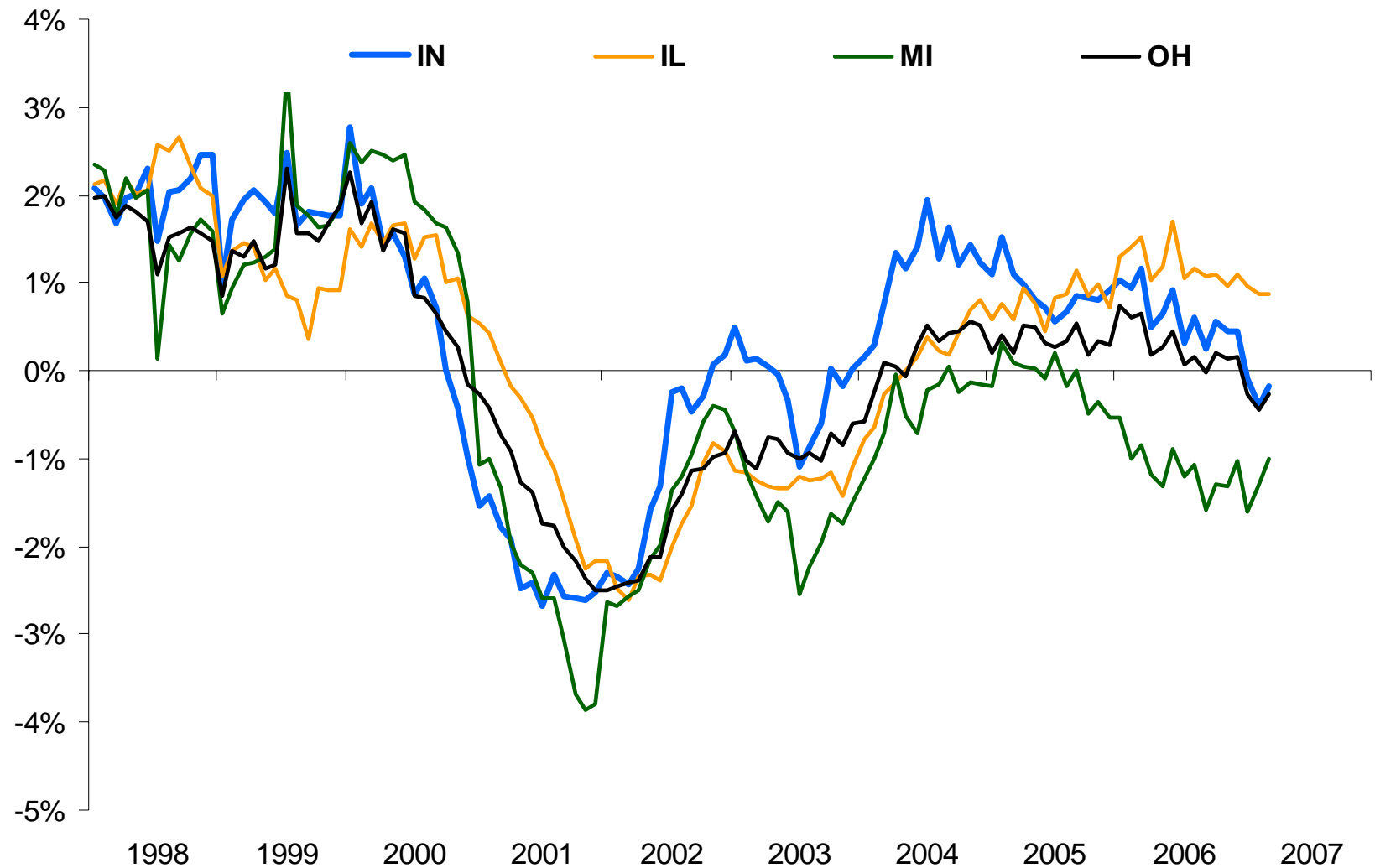


Employment: Indiana and the United States



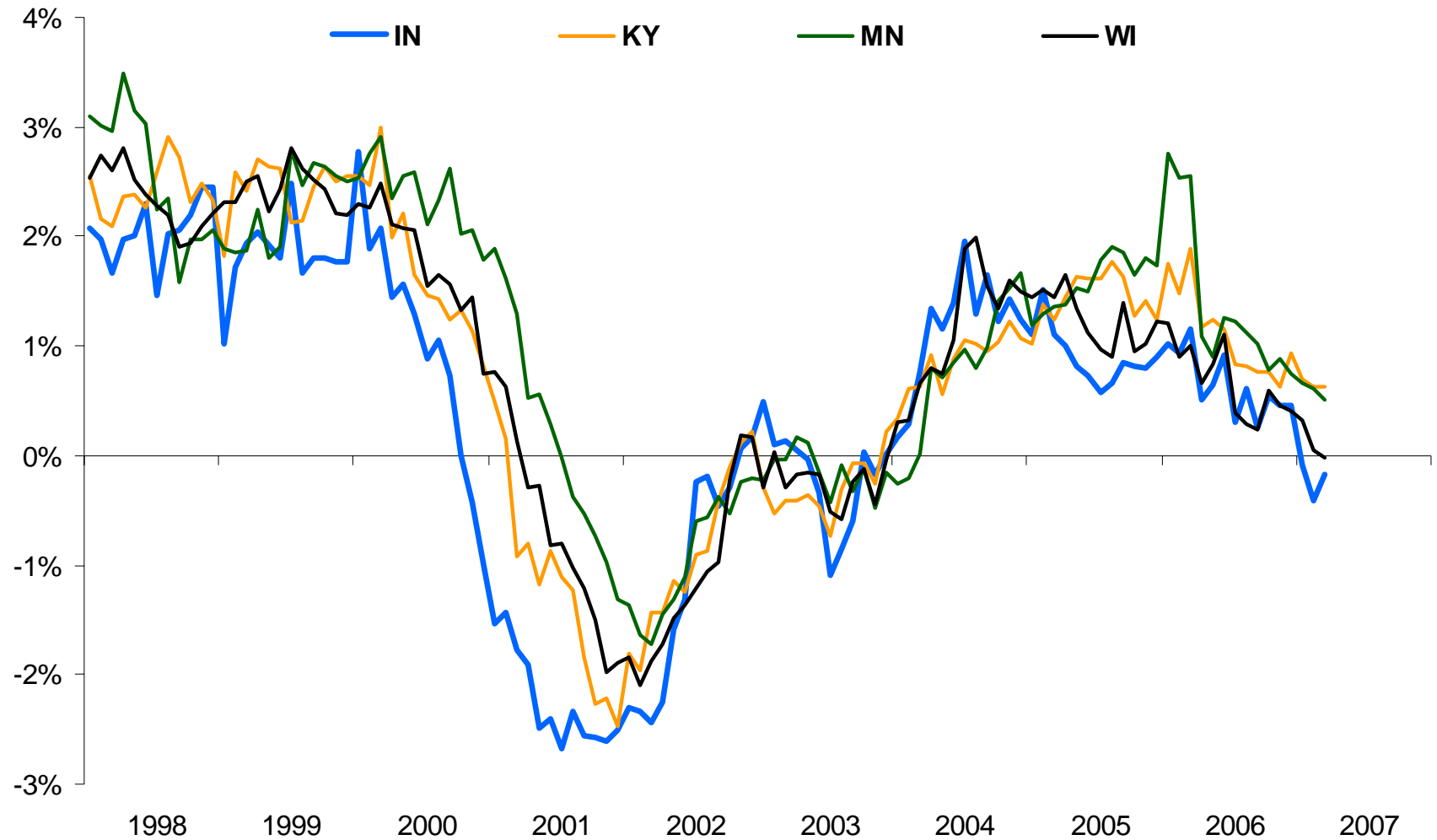


Employment: Indiana and the Midwest



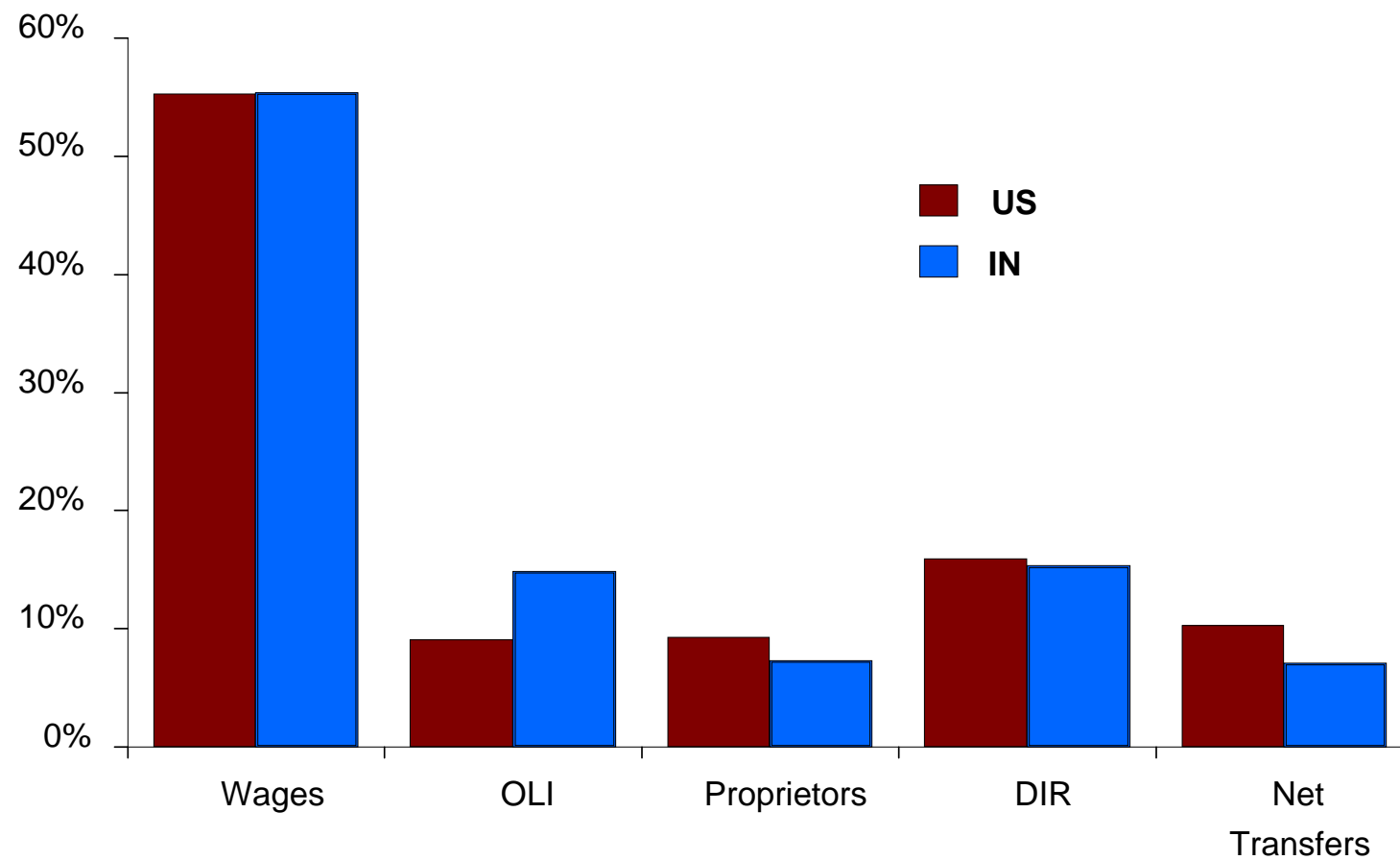


Employment: Indiana and the Midwest





Income Components: Indiana and the U.S.





Per Capita Personal Income

Jerry Conover

Director, Indiana Business Research Center



PCPI in Indiana Counties, 2005

Highest PCPI:

- Hamilton \$44,354
- Boone \$42,946
- Dubois \$36,752
- Hancock \$36,466
- Marion \$36,286

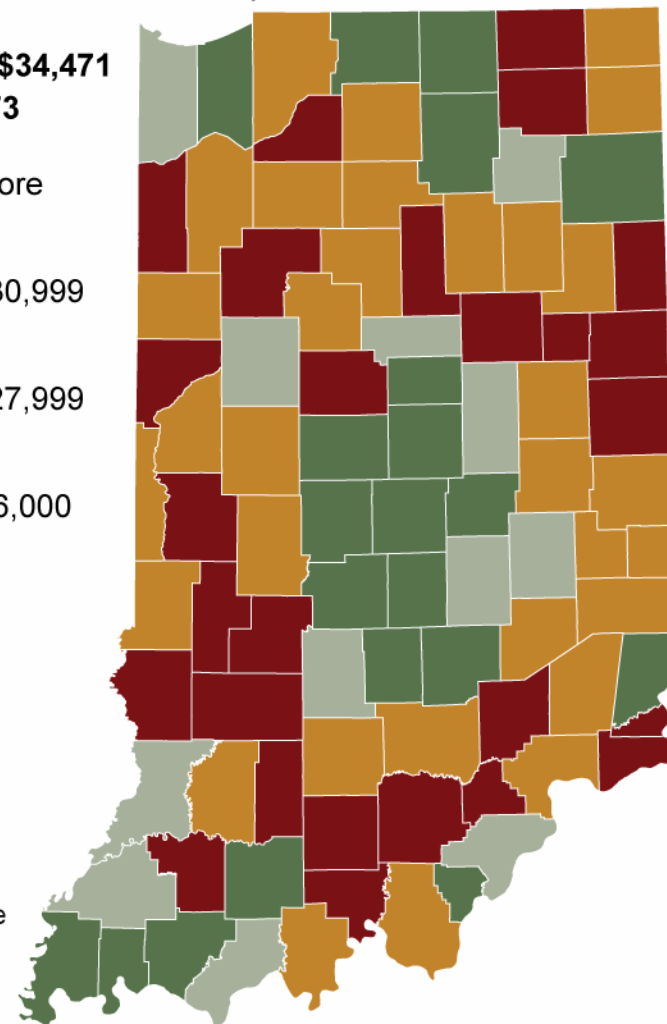
Lowest PCPI:

- Blackford \$23,577
- Crawford \$23,481
- Lagrange \$22,795
- Sullivan \$22,699
- Starke \$21,667

Per Capita Personal Income, 2005

United States = \$34,471
Indiana = \$31,173

- \$31,000 or More
(21 counties)
- \$28,000 to \$30,999
(12 counties)
- \$26,000 to \$27,999
(32 counties)
- Less than \$26,000
(27 counties)



Map produced by the
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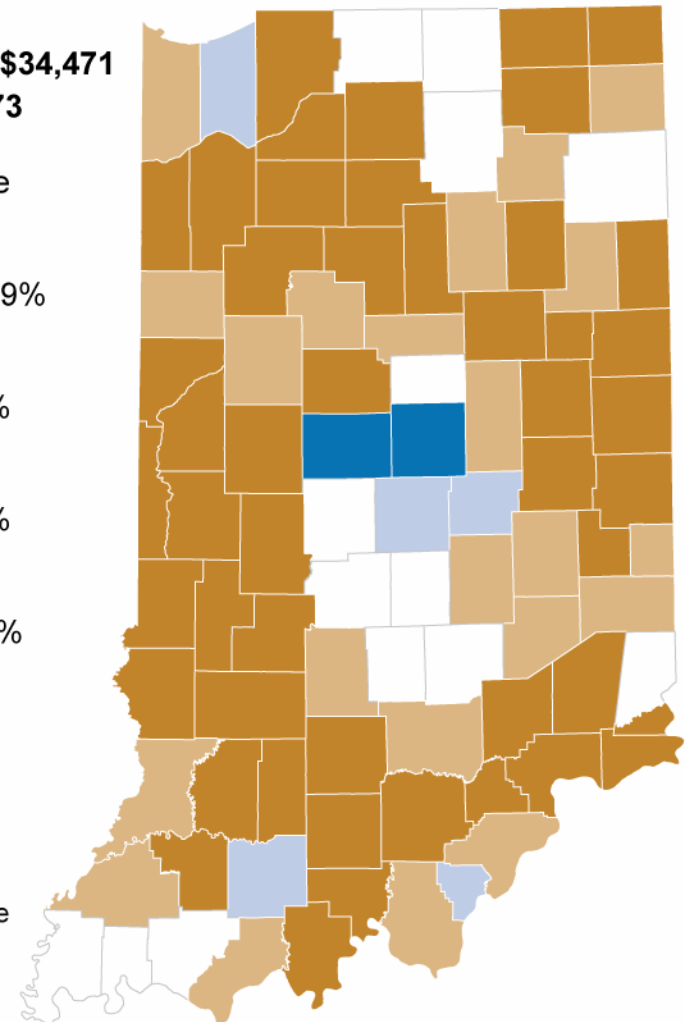
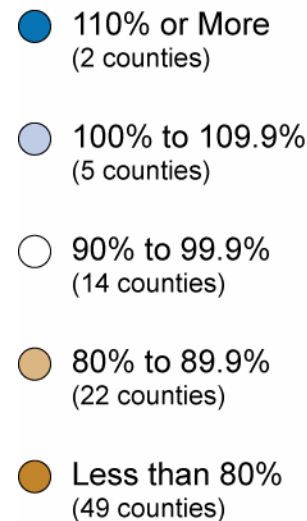


PCPI as a Percent of the U.S., 2005

- Only 7 counties exceeded the U.S. PCPI
- 49 counties were below 80% of U.S. PCPI

Per Capita Personal Income as a Percent of the United States, 2005

United States = \$34,471
Indiana = \$31,173



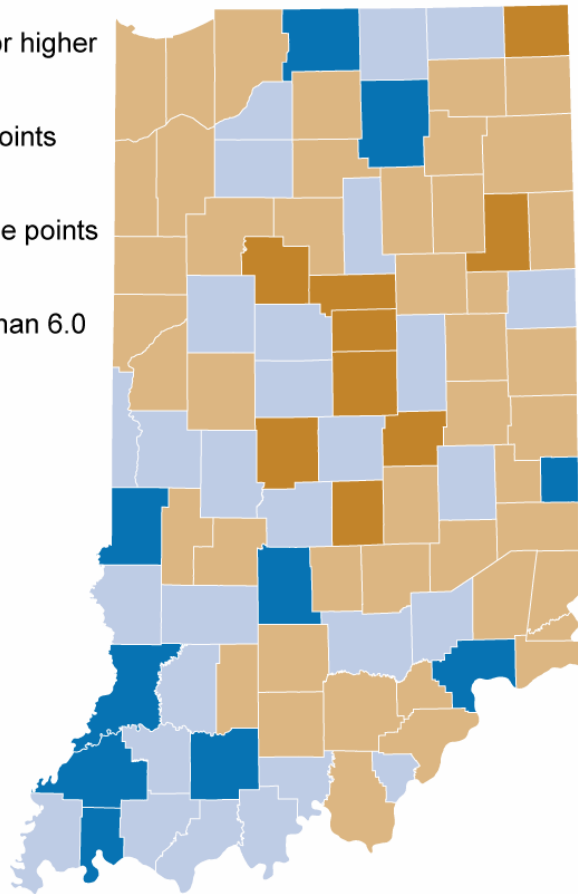
Map produced by the
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May 2007



Change in PCPI Relative to U.S.

Five-Year Change in PCPI as a Percent of the United States, 2000 to 2005

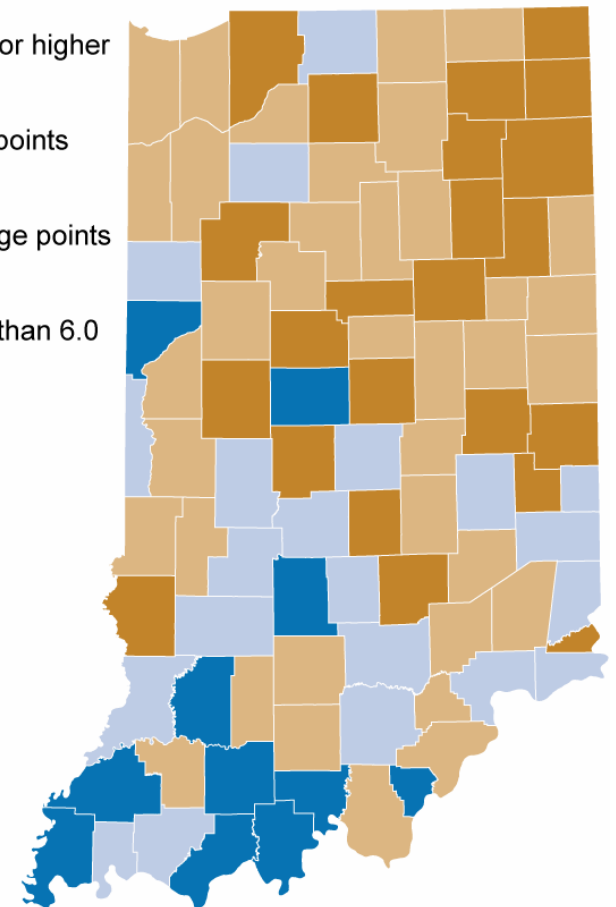
- 4 percentage points or higher (10 counties)
- 0 to 3.9 percentage points (28 counties)
- -0.1 to -6.0 percentage points (45 counties)
- Decreased by more than 6.0 percentage points (9 counties)



Map produced by the
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Ten-Year Change in PCPI as a Percent of the United States, 1995 to 2005

- 4 percentage points or higher (11 counties)
- 0 to 3.9 percentage points (21 counties)
- -0.1 to -6.0 percentage points (37 counties)
- Decreased by more than 6.0 percentage points (23 counties)

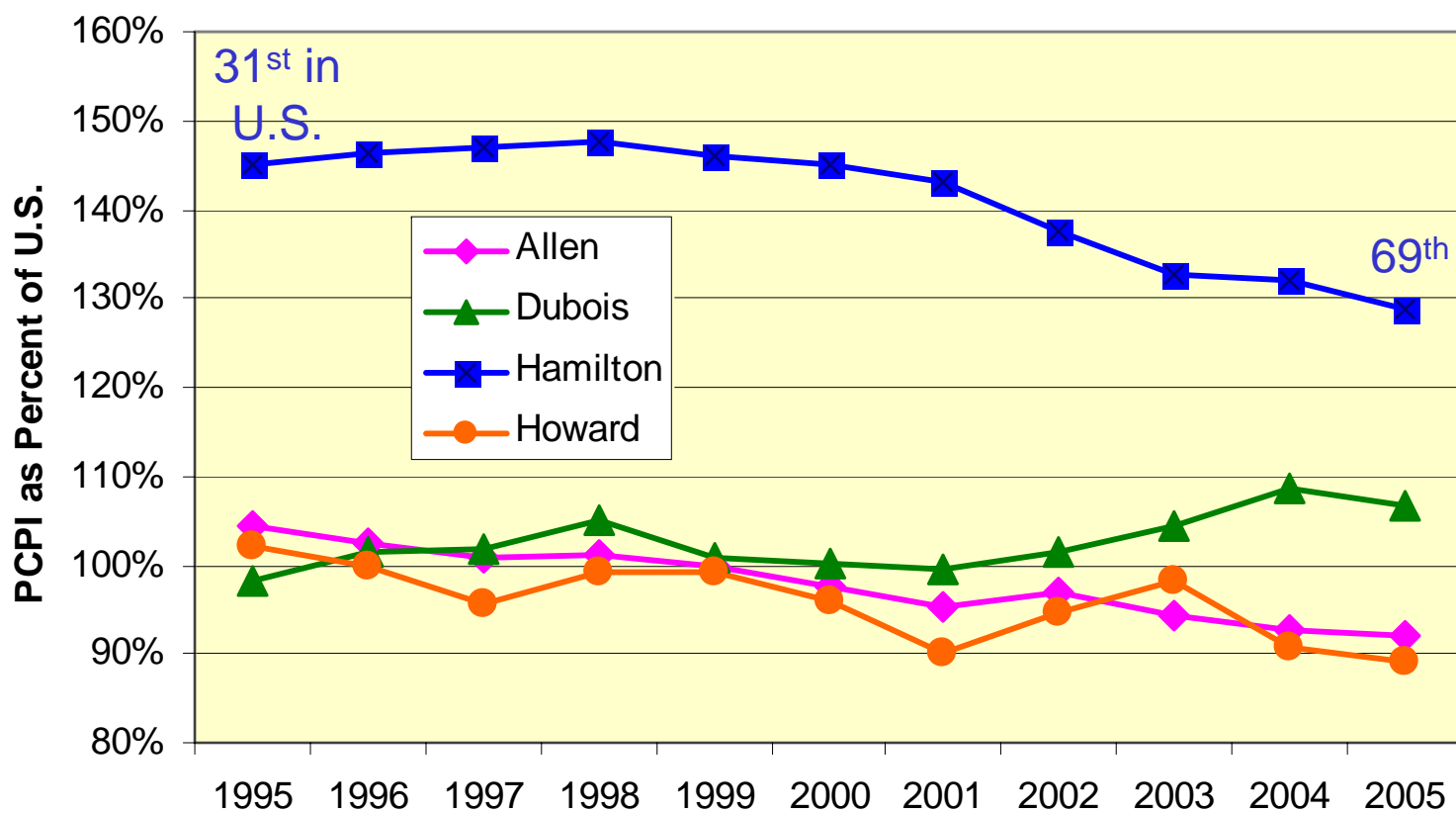


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Hamilton Falling in Rankings

Change in Per Capita Income Relative to U.S.





Average Wage Per Job, 2005

Highest wages:

- Martin \$49,666
- Howard \$44,368
- Posey \$43,234
- Gibson \$42,464
- Marion \$41,789
- Hamilton \$40,631

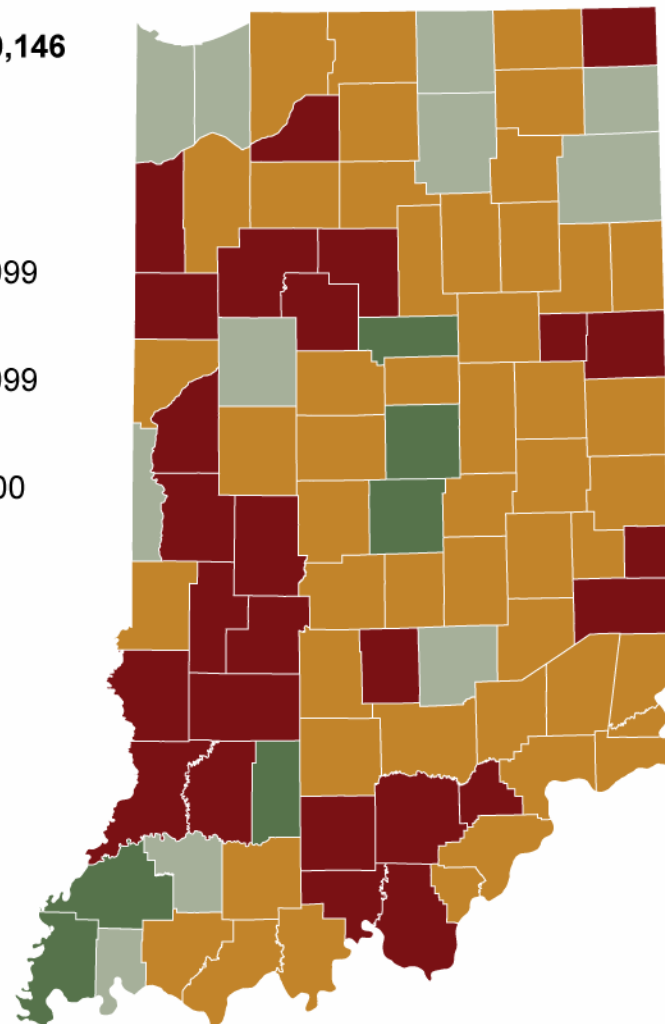
Lowest wages:

- Union \$25,045
- Starke \$24,830
- Franklin \$24,195
- Parke \$23,332
- Brown \$21,348

Average Wage per Job, 2005

United States = \$40,146
Indiana = \$34,856

- \$40,000 or More
(6 counties)
- \$34,000 to \$39,999
(11 counties)
- \$28,000 to \$33,999
(49 counties)
- Less than \$28,000
(26 counties)

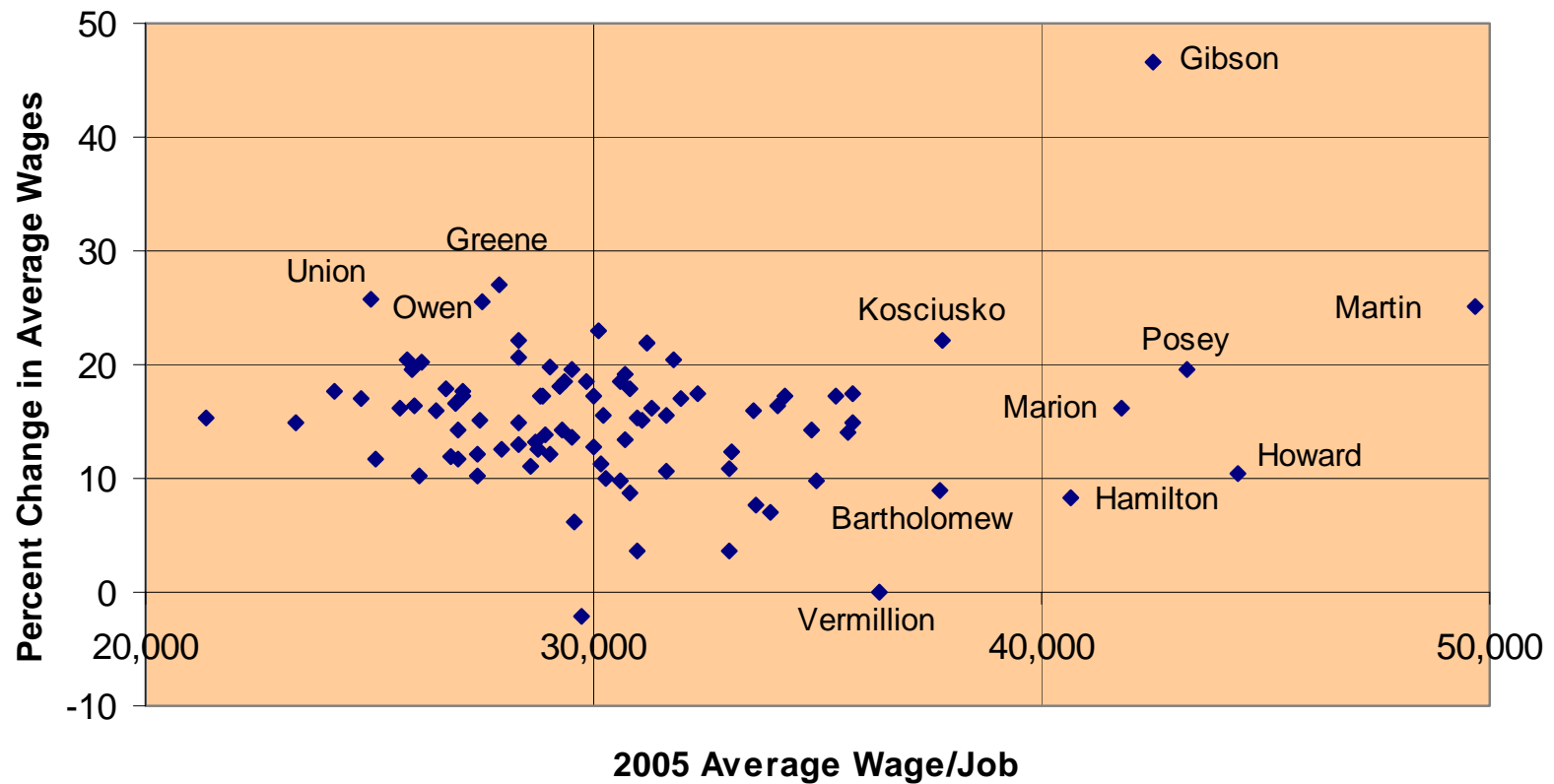


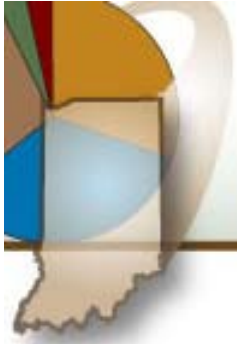
Map produced by the
Indiana Business
Research Center,
May 2005



Average Wage Growth

Changes in Average Wages, 2001-2005





Foreign Direct Investment in Indiana

Timothy Slaper

Director of Economic Analysis
Indiana Business Research Center



Foreign Direct Investment

- Report on FDI in Indiana completed earlier this year
- Most recent data is from 2004
- Bureau of Economic Analysis will release 2005 data in August
- Limited ability to ascertain trends
 - Short time series data
 - Shift in focus from all U.S. affiliates to majority-owned U.S. affiliates
 - Change in classification from SIC to NAICS
- What follows is a snapshot of the structure of FDI in 2004



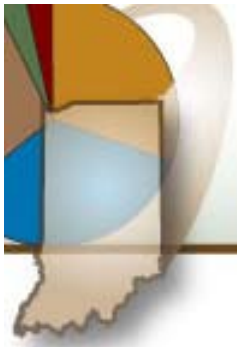
Foreign Direct Investment: What Is It? Why Does It Matter?

- Foreign entities invest in the local economy via “greenfield investments” or via an acquisition/merger of a local company
- An example of a greenfield FDI investment is the Honda plant in Greensburg
- An example of an acquisition/merger is Daimler purchasing Chrysler
- Greenfield investments are the primary target of a host state’s promotional effort to attract FDI because they create new production capacity and jobs, and can establish linkages to the global marketplace



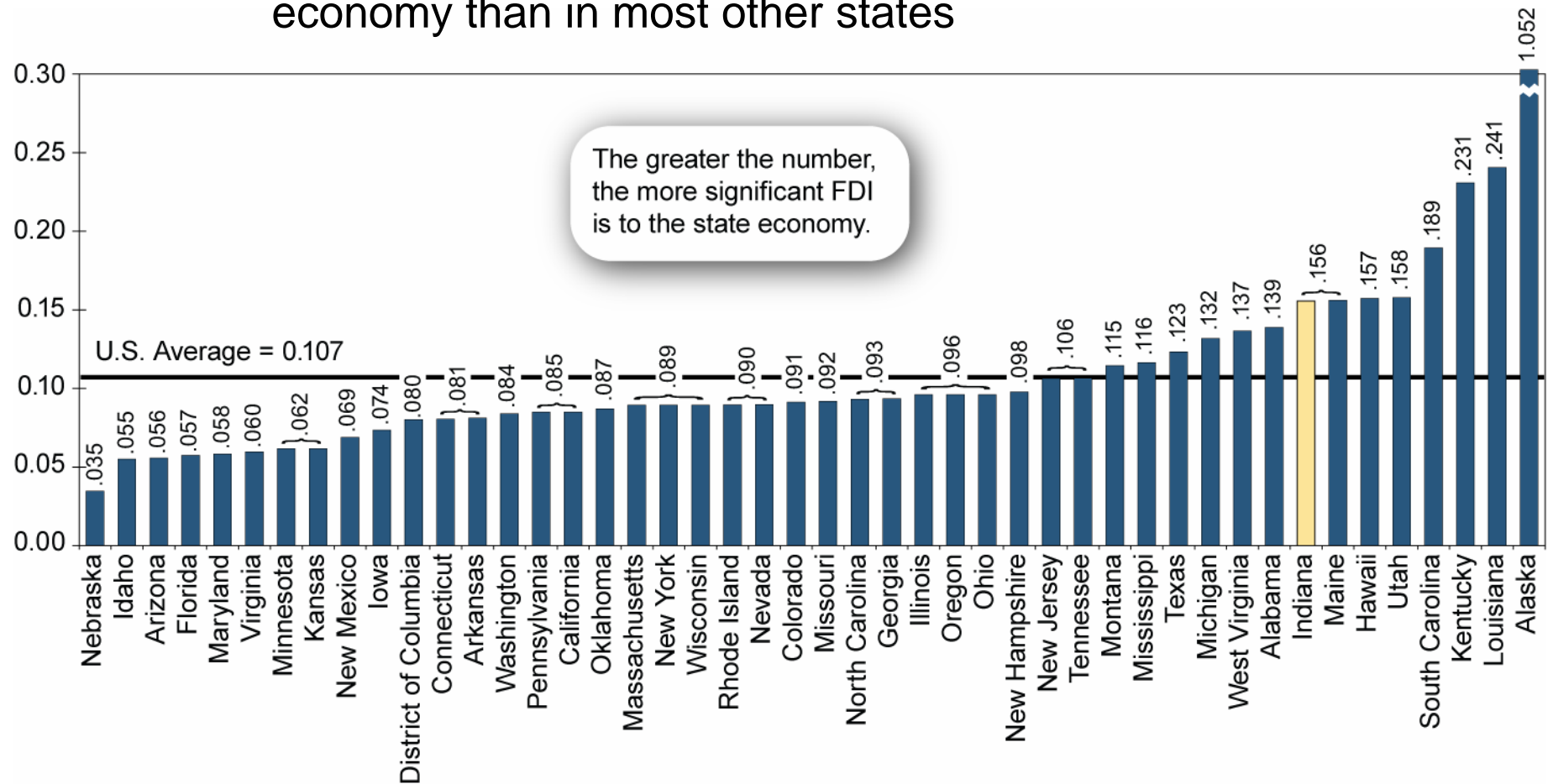
Foreign Direct Investment: What Is It? Why Does It Matter?

- To be considered a U.S. affiliate, a foreign investor must have a least at ten percent stake in the company
- A better measure of foreign participation in the local economy is what is called “majority-owned U.S. affiliate”
 - 50% or greater stake in the company
- Employment data are probably the best means to measure changes in the level and nature of foreign participation because employment data are collected extensively and routinely on an establishment basis **and** job creation is an important policy priority



Ratio of Foreign Direct Investment to Gross State Product, 2004

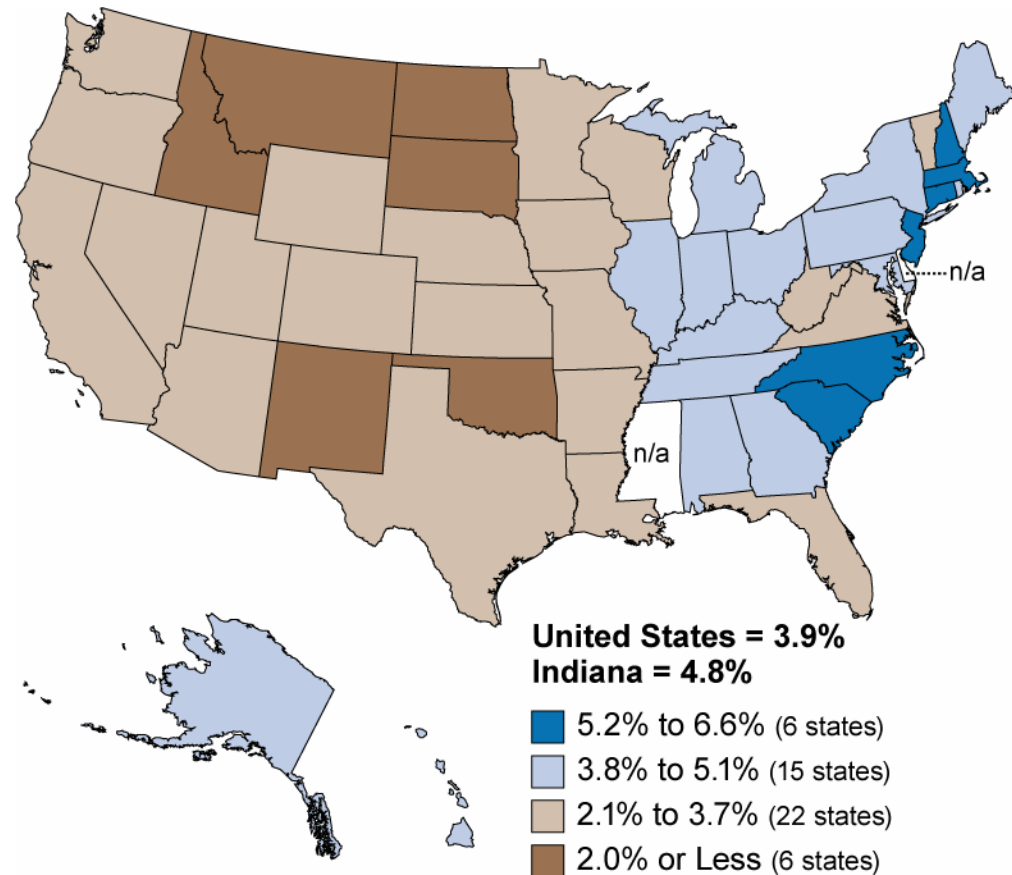
FDI plays a relatively more significant role in Indiana's economy than in most other states





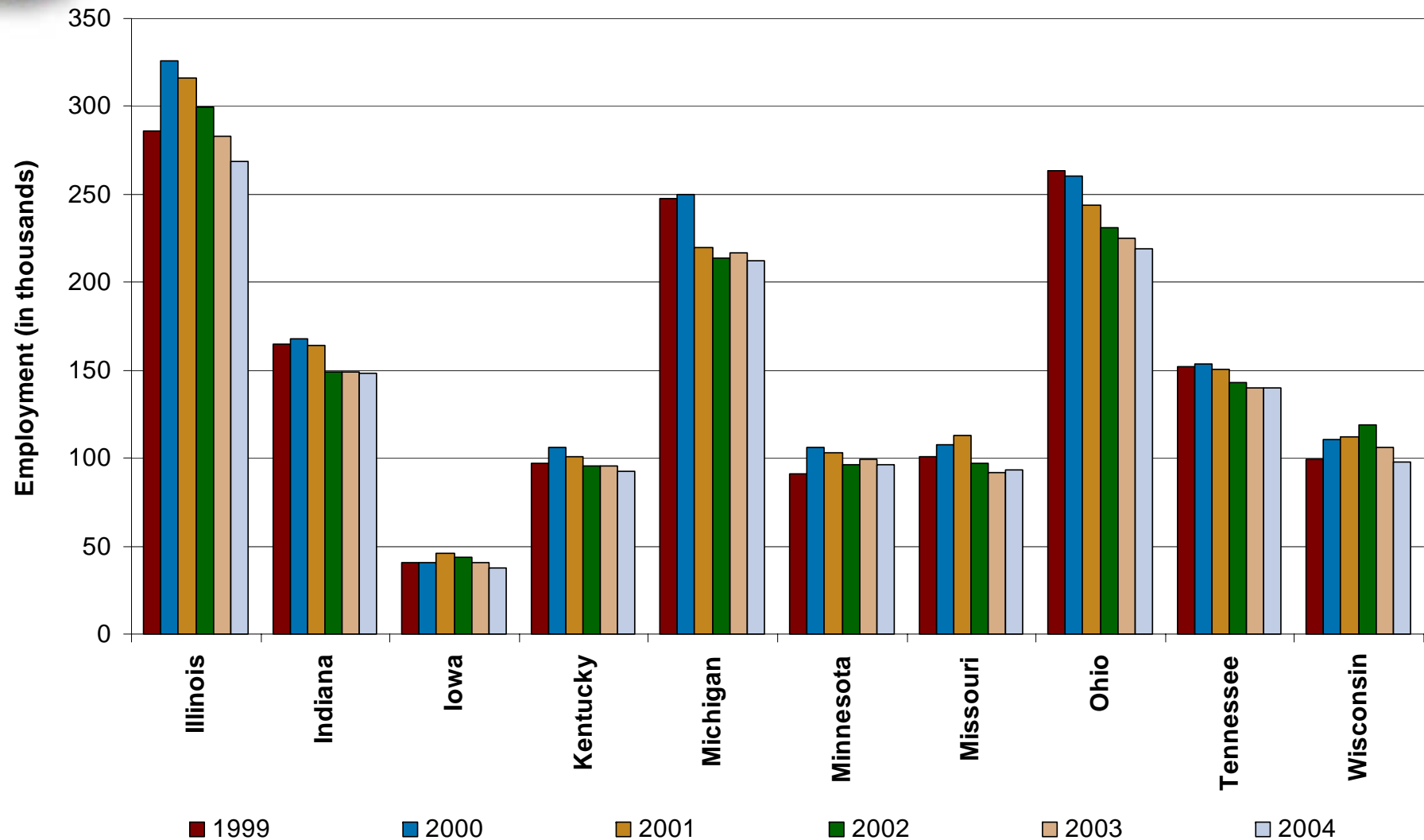
U.S. Affiliate Employment as a Percent of Total Private Industry Employment, 2004

- U.S. affiliate operations in Indiana provide a significant number of jobs





U.S. Affiliate Employment Trends in the Midwest, 1999 to 2004

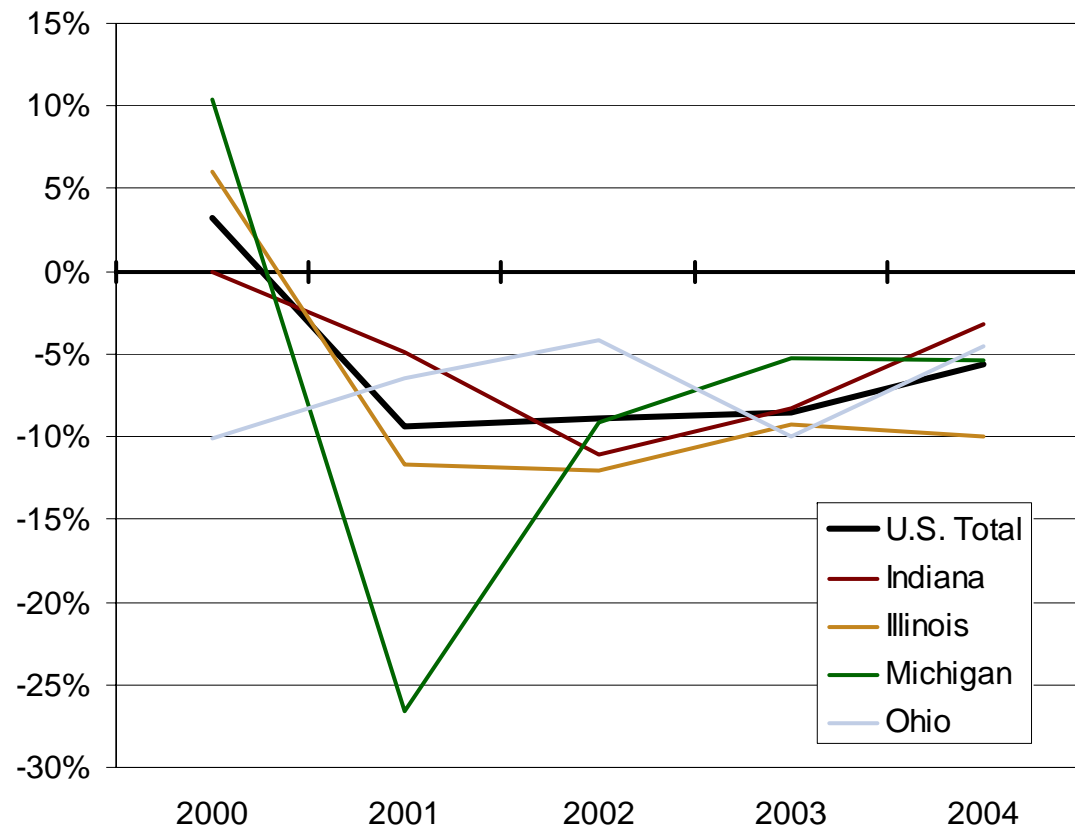




U.S. Affiliate Manufacturing Employment

- Employment in manufacturing was hard hit during the 2001 recession
- Indiana's trend follows the U.S. average
- While still in the doldrums, Indiana's manufacturing affiliate employment is relatively better off than its larger regional peers

Percentage Change in Manufacturing Employment of Nonbank U.S. Affiliates, by State, 2000-2004

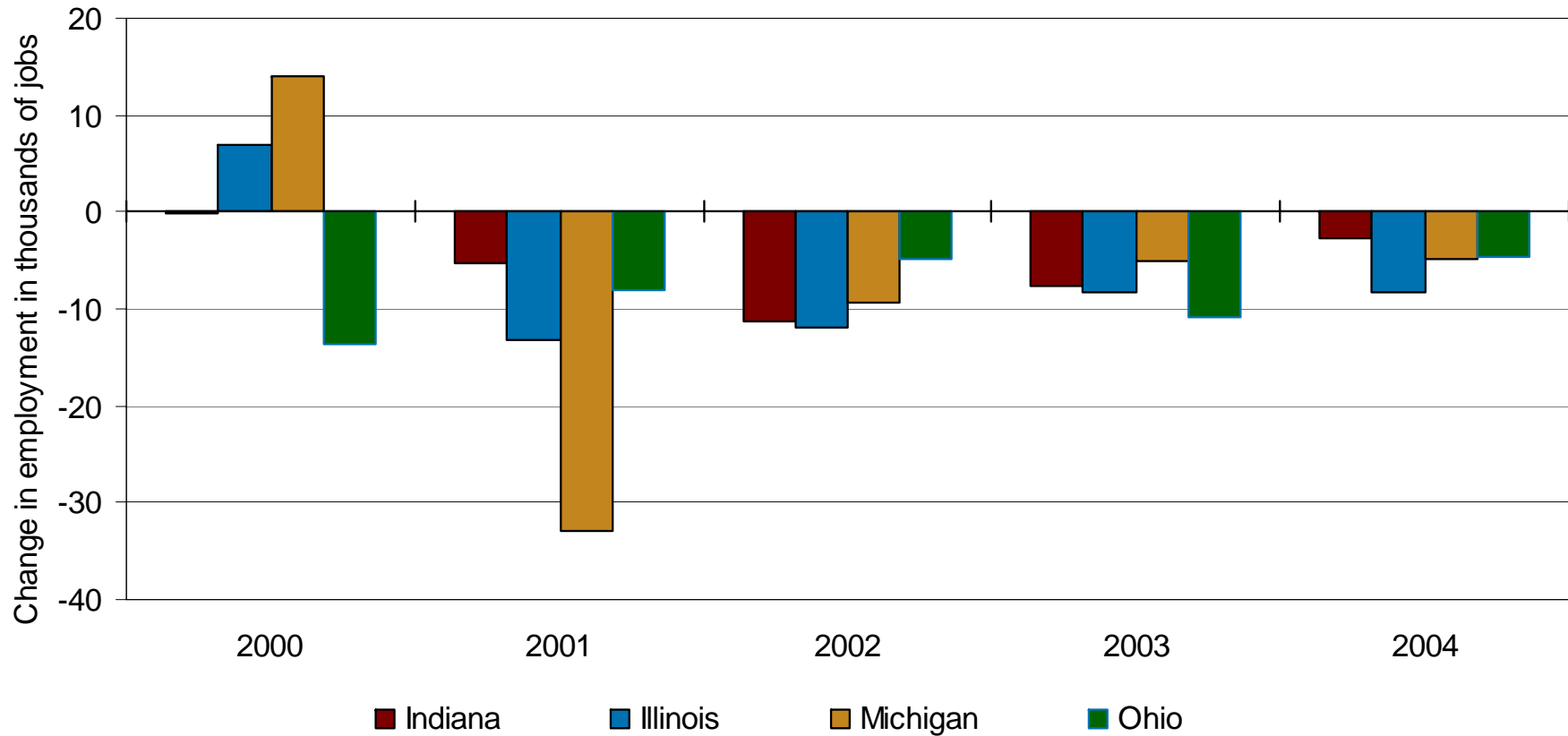




Indiana's U.S. Affiliate Employment, Manufacturing

Absolute change in affiliate manufacturing employment

Change in Manufacturing Employment of Nonbank U.S. Affiliates, by
State, 1999-2004, Larger Regional Peers (in Thousands)

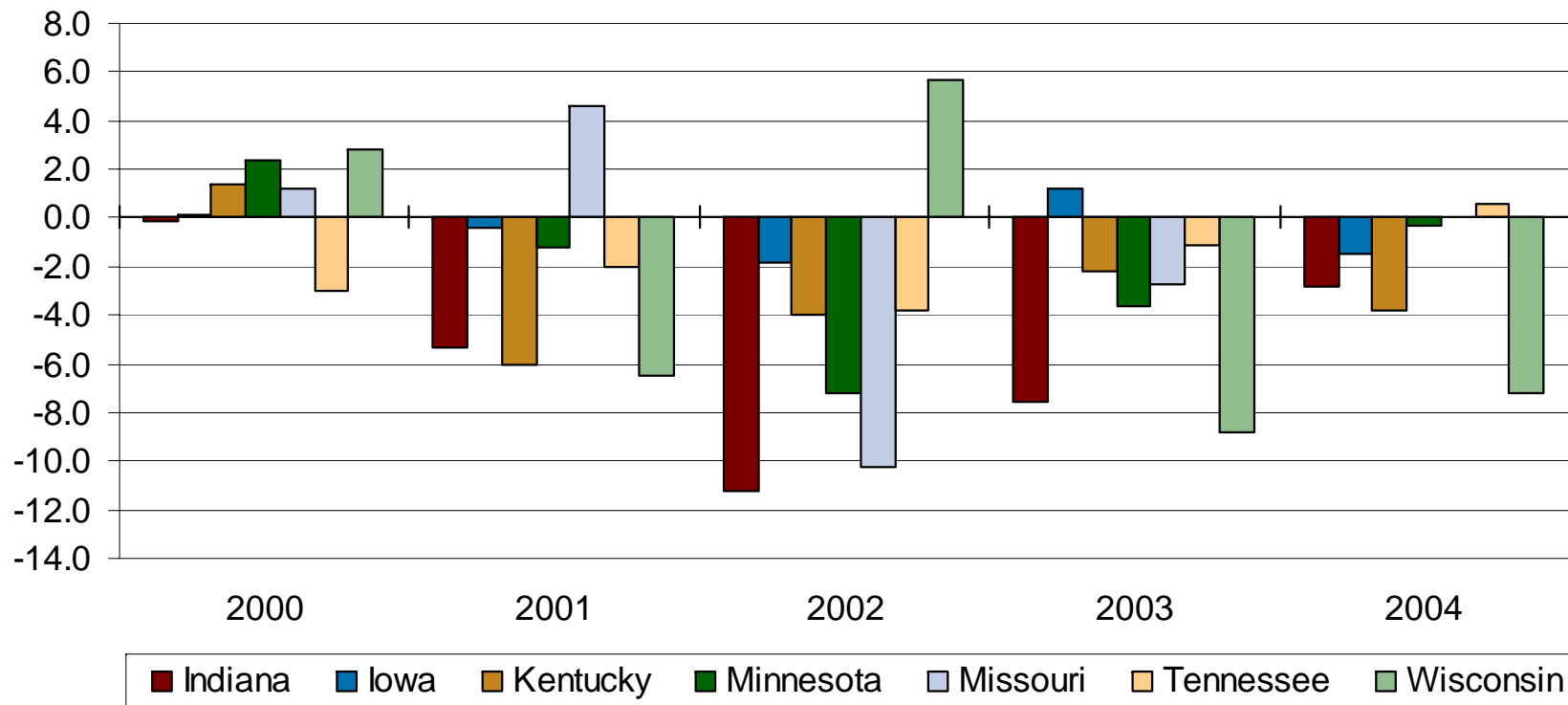




Indiana's U.S. Affiliate Employment, Manufacturing

Indiana compared to regional peers with less than 100,000 affiliate jobs in manufacturing (in 2000)

Change in Manufacturing Employment of Nonbank U.S. Affiliates, by State, 1999-2004,
Smaller Regional Peers (in Thousands)

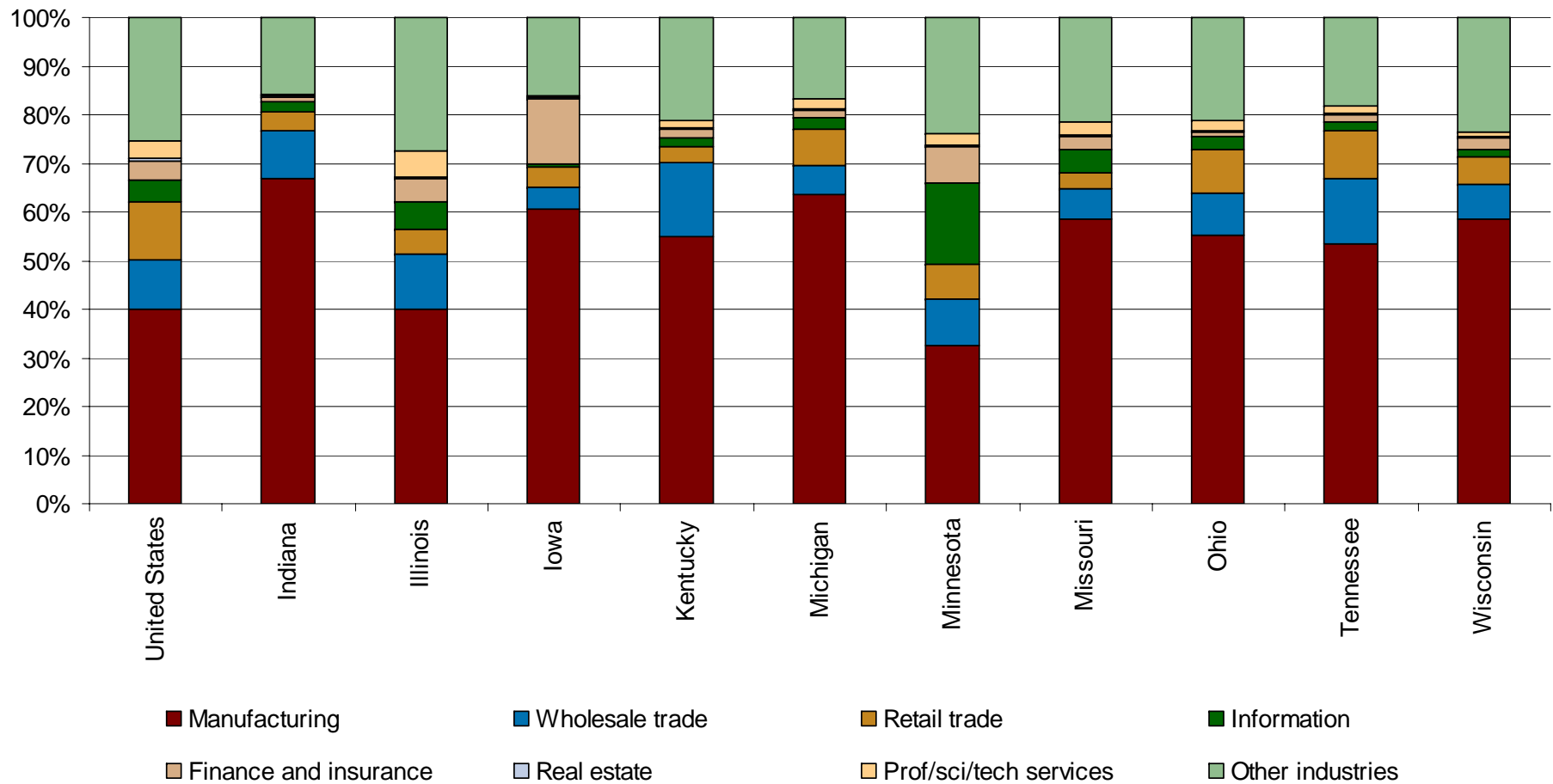




Foreign-Controlled U.S. Affiliate Employment by Sector

Percentage of Majority-Owned U.S. Affiliate Employment by Industry Sector

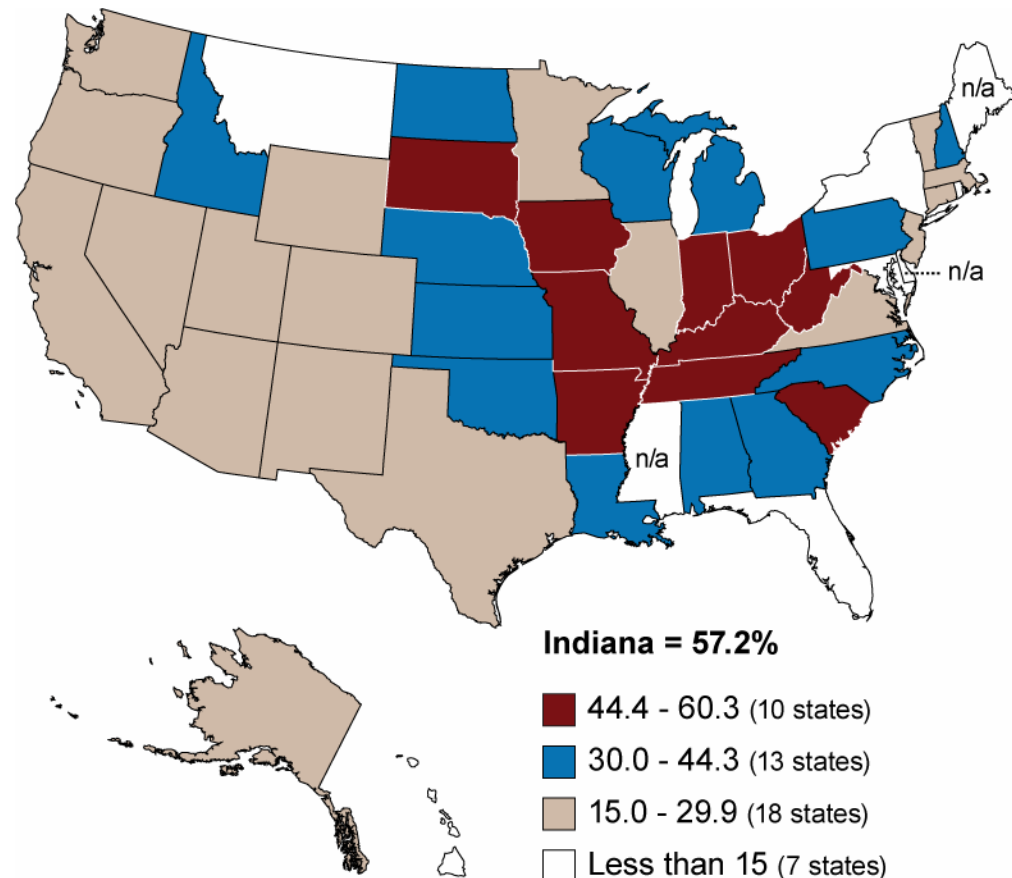
Relative the the nation and its regional peers, Indiana's affiliate employment is heavily biased toward manufacturing





U.S. Affiliate Jobs: Manufacturing as a Percent of Total, 2004

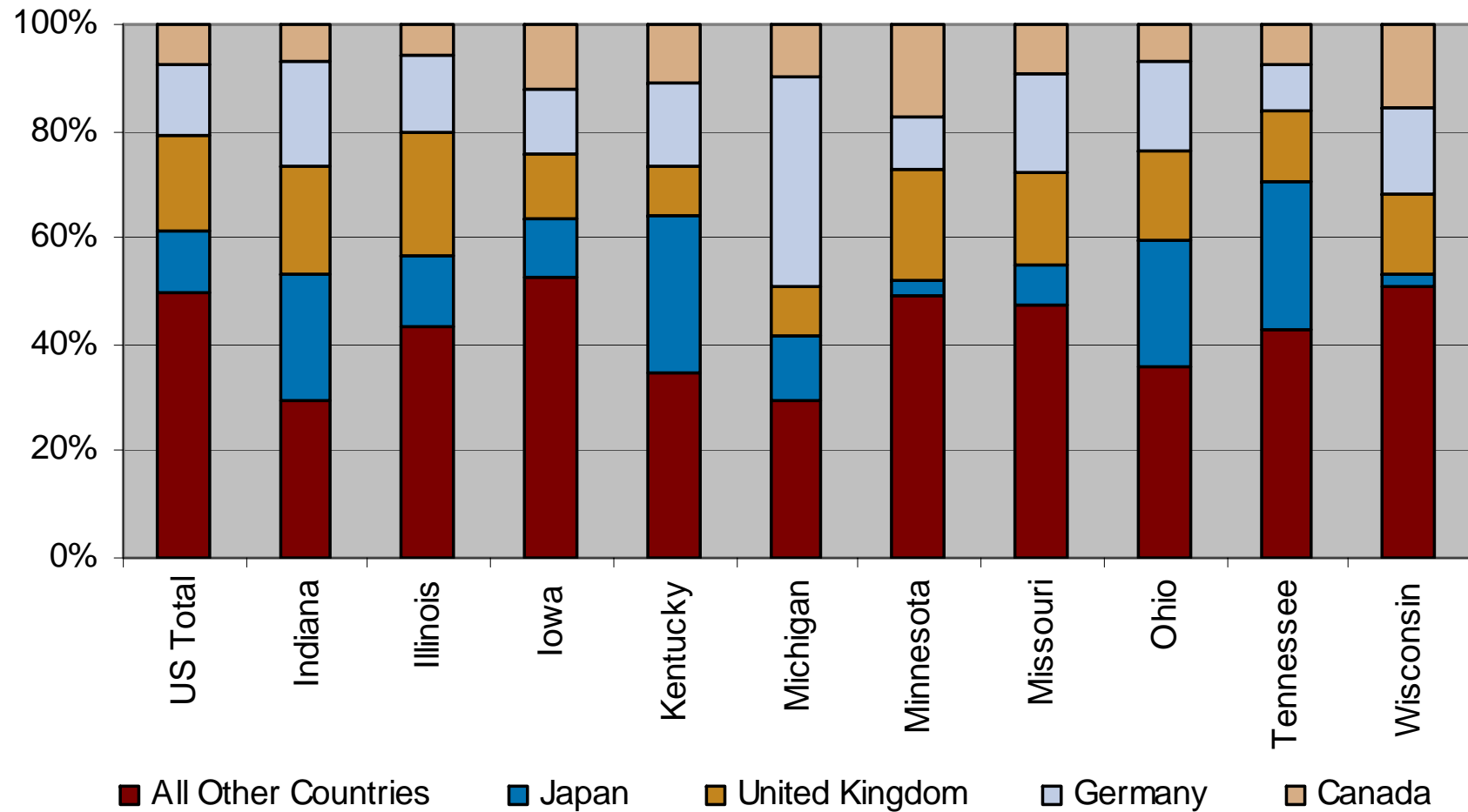
- The heavy emphasis in manufacturing is also evident for all U.S. affiliates (not just majority-owned)
- Affiliate presence in the manufacturing sector is strong across the Midwest
- Illinois and Minnesota have more diversified U.S. affiliate operations





Percent of Majority-Owned Affiliate Employment by Source, 2004










A majority of affiliate employment in Indiana is attributed to just three countries

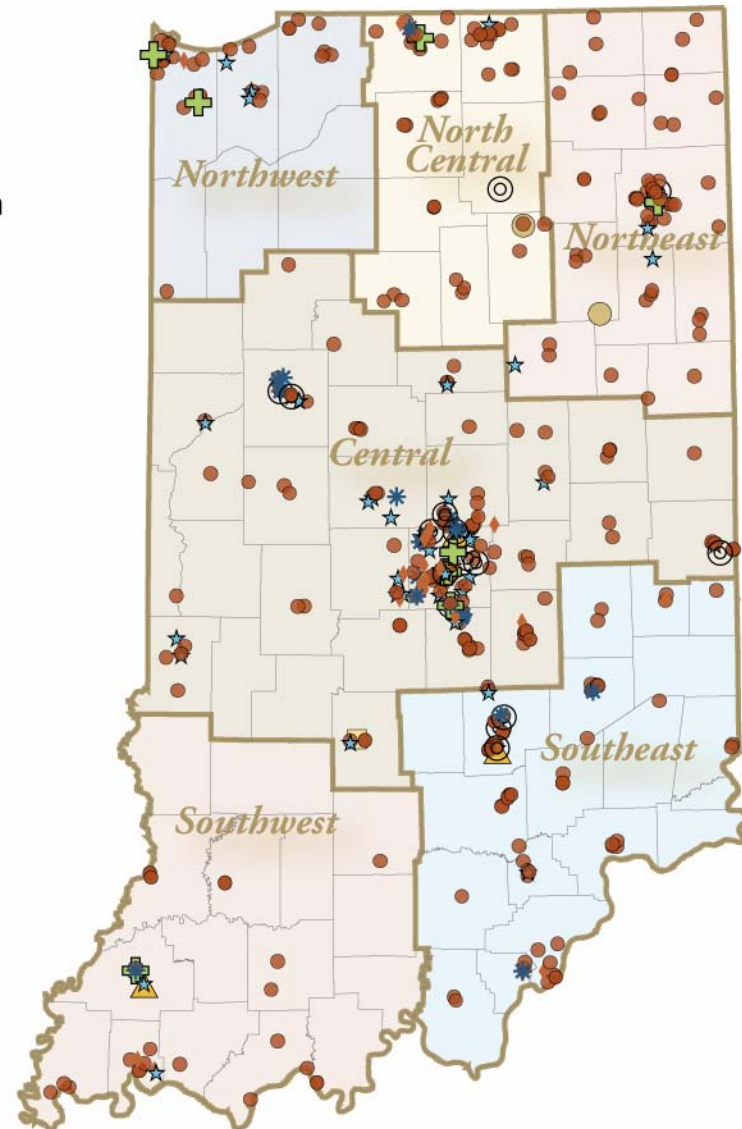




Location of U.S. Affiliates in Indiana by Industry

Standard Industry Classification Division

-  Agriculture, Forestry, and Fishing
-  Mining
-  Construction
-  Manufacturing
-  Transportation, Communications, Electric, Gas, And Sanitary Services
-  Wholesale Trade
-  Retail Trade
-  Finance, Insurance, and Real Estate
-  Services





Reporting on FDI: what is next?

- Next report will focus on exports
- FDI follow-up report will incorporate data released later this summer
- With an additional year in the time series, there will be a better picture of FDI trends



Census 2010

UNITED STATES CENSUS

2010

Indiana

www.census.indiana.edu

What's at Stake for Indiana?

Carol Rogers

Deputy Director, Indiana Business Research Center



Money

- Census data directly affect where \$200 billion per year in federal and state funding is allocated.
- That's more than \$2 trillion over a 10-year period.
- Following Census 2000, \$388 million in federal grants shifted to states with the biggest estimated population increases based on the census



Power

- The decennial census is used to apportion seats in the U.S. House of Representatives among the states, as mandated by the U.S. Constitution.
- Perhaps most importantly, these data are used to define legislative districts and districts for cities and towns.



Intelligence

- Census data are used to inform many decisions made for and by Indiana's communities.
- Data about changes in your community are crucial to many planning decisions, such as where to provide services for the elderly, where to build new roads and schools, or where to locate job training centers.



LUCA: Local Update of Census Addresses

- Census forms are sent to housing units, not to people; thus, Census 2010 won't be accurate if the Census Bureau doesn't know about all the housing units in an area.
- Despite their best efforts, there is no way the Census Bureau can replicate the knowledge local governments possess about their communities.
- The LUCA program provides the opportunity for local officials to review the addresses used by the Census Bureau in order to ensure an accurate census



June/July 2007

- Invitations to participate will be mailed to the highest elected officials in July 2007, but it is imperative that preparations begin now.
- Please encourage our communities to participate — this is an activity that will yield a decade's worth of benefits.
 - Compile your list of addresses
 - Focus on the most problematic addresses
 - Check roads and boundaries
 - Pool resources
 - Know that exact addresses really matter



Indiana Among the States

- The final response rate for Census 2000 (that is, responses received by mail, telephone or over the Internet through September 7, 2000) was 67 percent overall. States ranged from a 76 percent response in Iowa to 57 percent in Alaska.
- In Indiana, the final response rate was 69 percent, ranking the state 17th in the nation. However, that was down from Indiana's 72 percent mail response rate for the 1990 Census.



How Communities Can Prepare

- Asking just seven or so questions of all residents (one of the shortest census questionnaires in U.S. history), the 2010 Census form will take most households about ten minutes to complete and will result in a simpler, less costly and more accurate census.



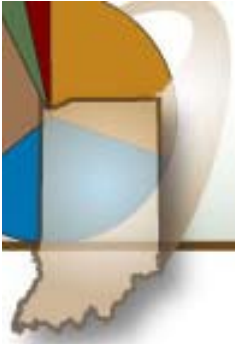
What Can Local Governments Do?

- **Participate in LUCA:** This is the single most important thing you can do to get the most accurate data for your community in the 2010 Census.



What Can Hoosiers Do?

- Identify hard-to-count populations
- Set up a complete count committee
- Work closely with populations that are reluctant to be counted
- Publicity



Discussion

